The State of the Oil & Gas Industry
Kara Moriarty- Alaska Oil & Gas Association
Fairbanks legislative candidates
October 11, 2016
AOGA MEMBER COMPANIES

GLACIER
Hilcorp
Caelus Energy Alaska
BlueCrest Energy
Petro Star Inc.
Chevron
Tresoro
bp
ExxonMobil
Furie Operating Alaska LLC
Alyeska Pipeline Service Company
What does AOGA do?

Acts as the voice of the oil and gas industry in Alaska

How:

• Advocate on behalf of industry as a whole
• Testify on legislation affecting industry
• Develop comments and litigate on issues involving endangered species, environmental regulations (e.g. air and water permits), etc.
• Inform the public about oil and gas’ importance to Alaska
• Interact with policymakers
• Occasionally get involved with ballot measures
What doesn’t AOGA do?

• AOGA is mandated by its bylaws to remain nonpartisan
• AOGA does not endorse, support or otherwise get involved with political candidates. AOGA does not have a Political Action Committee (PAC).
• AOGA is not an employment coordinator for oil and gas companies
• AOGA members all must either produce, explore, transport or refine oil and gas; our members are NOT contractors
Industry partners

• Contractors = Alaska Support Industry Alliance ("The Alliance")

• Resource development across industries (mining, fishing, tourism, timber, oil and gas) = Resource Development Council

• Statewide business advocacy, including resource issues = Alaska Chamber (formerly the State Chamber of Commerce)
Myth #1: Alaska is in its last days of an oil economy; decline continues
Fact: Production CAN be increased with good policies.
Production forecasts are up

### TAPS Throughput Historical & Forecasted

**TAPS THROUGHPUT (thousand barrels/day)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fall 2013 Forecast</th>
<th>Spring 2016 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>487.6</td>
<td>520.2</td>
</tr>
<tr>
<td>2017</td>
<td>482.7</td>
<td>507.1</td>
</tr>
<tr>
<td>2018</td>
<td>459.5</td>
<td>488.8</td>
</tr>
<tr>
<td>2019</td>
<td>429.1</td>
<td>484.4</td>
</tr>
<tr>
<td>2020</td>
<td>399.6</td>
<td>454.1</td>
</tr>
<tr>
<td>2021</td>
<td>368.8</td>
<td>418.6</td>
</tr>
<tr>
<td>2022</td>
<td>340.1</td>
<td>387.1</td>
</tr>
<tr>
<td>2023</td>
<td>312.9</td>
<td>356.8</td>
</tr>
<tr>
<td>2024</td>
<td></td>
<td>327.0</td>
</tr>
<tr>
<td>2025</td>
<td></td>
<td>300.5</td>
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</table>
Cook Inlet oil production up 102%
Case study: The Monopod

2012 royalties paid: $90,000/month
2016 royalties paid: $500,000/month
Why? Incentives = more production
Myth #2: Alaska is running out of oil
FACT: Lots of oil remains in Alaska. Question: Do our policies support developing it?

<table>
<thead>
<tr>
<th>RESOURCE POTENTIAL</th>
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</thead>
<tbody>
<tr>
<td><strong>STATE LAND</strong></td>
</tr>
<tr>
<td>Cook Inlet</td>
</tr>
<tr>
<td>599 mbo and 19 tcf gas</td>
</tr>
<tr>
<td>Onshore North Slope</td>
</tr>
<tr>
<td>Conventional: 5 bbo and 35 tcf gas</td>
</tr>
<tr>
<td>Heavy/Viscous: 24-33 bbo</td>
</tr>
<tr>
<td>Unconventional: 2 bbo and 12 tcf gas</td>
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<tr>
<td><strong>FEDERAL LAND</strong></td>
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<tr>
<td>Offshore Arctic</td>
</tr>
<tr>
<td>27 bbo and 132 tcf gas</td>
</tr>
<tr>
<td>NPR-A</td>
</tr>
<tr>
<td>896 mbo and 53 tcf gas</td>
</tr>
<tr>
<td>ANWR</td>
</tr>
<tr>
<td>10 bbo and 3.5 tcf gas</td>
</tr>
</tbody>
</table>

mbo - million barrels of oil  bbo - billion barrels of oil  tcf - trillion cubic feet
Major new discovery in Alaska

*ALASKA’S NORTH SLOPE OIL FIELDS - ESTIMATED ULTIMATE RECOVERY*

Data based on the “Historical Resource and Recovery Growth in Developed Fields on the Arctic Slope of Alaska” – Alaska DNR Division of Oil & Gas, 2004

- Prudhoe Bay: 13.875 Billion
- Endicott: 572 Million
- Nuna: 100 Million
- Oooguruk: 115 Million
- Alpine: 465 Million
- Lisburne: 192 Million
- Smith Bay: 2.4 Billion
- Kuparuk River: 2.881 Billion

[Diagram showing oil fields and their estimated ultimate recovery amounts]
Myth #3: Oil tax credits are “free money”, given to the “richest corporations in the world”
TAX CREDITS

HOW DO OIL & GAS COMPANIES EARN THEM?

1 PLANNING
LAND OF OPPORTUNITY

2 INVESTMENT & WORK
EXPLORE
NEW WELLS

3 STATE BENEFITS
ALASKA ECONOMY GROWS VIA DOLLARS INVESTED

4 CREDIT APPLICATION
COMPANY APPLIES FOR CREDIT

5 CREDIT EARNED
STATE ISSUES CERTIFICATE ON APPROVED EXPENSES

STATE BENEFITS:
NEW JOBS
NEW TAX REVENUE
NEW ROYALTIES (for PFD)
MORE OIL

COMPANY CREATES PLANS
HIRE ALASKANS
NEW OIL

PRODUCE NEW OIL

ALASKA OPEN FOR BUSINESS?
FACT: Tax credits are designed to help offset Alaska’s high cost environment

- Companies must spend money in Alaska FIRST
- Work is done: seismic testing, wells drilled, roads built, etc.
- AFTER work is complete, companies may **apply** for credits
- Not all work qualifies for credits
- Large oil producers do not receive refundable (cash) credits
Other states offer various credits

Just a few examples of incentives or credits:

• California: Enhanced oil recovery
• Louisiana: Deep wells, drill rig conversion, trucking and/or barging fees, tertiary recovery, more
• Texas: Clean energy, enhanced oil recovery, high-cost gas, marginal wells, more
Myth #4: The State of Alaska does not receive enough ROI to justify oil tax credits
FACT: Some projects will generate more than a 300% return to the State. State also benefits from investment $, oil production, and jobs.
Myth #5: The Legislature failed to pass meaningful changes to oil taxes during the last session.
FACT: House Bill 247 represents a major shift in tax policy:

- Cook Inlet credits are reduced by half in 2017, eliminated in 2018
- Exploration credits on the North Slope sunsetsed
- Limits are placed on how many tax credits one company can earn
- Interest rate calculations changed
- Industry opposed the bill from the beginning and in the end
Myth #6: Oil job losses in Alaska don’t matter; most employees are nonresidents
FACT: The Alaska hire rate in the oil & gas industry averages **70 percent**

- This number **INCLUDES** contractors
- Among direct companies, number is closer to 90 percent
- Companies **PREFER** to hire Alaskans: makes good business sense
- Estimate 3,000 oil jobs lost so far in this downturn
- These are Alaskans: Our friends, neighbors
- No other state tracks resident hire
100% Alaska hire for long-term field operations employees.
Myth #7: Nothing exciting or important is happening in Alaska’s oil and gas industry these days
FACT: Activity increased after passage of the Cook Inlet Recovery Act (2009) & SB 21 (2013), remains high
Myth #8: Senate Bill 21 was a “giveaway” to industry and is responsible for the State’s revenue shortfall.

vote NO on 1 for Alaska’s future
FACT: Historically low oil prices are to blame for the State’s deficit

SB 21 brings in more revenue to the State at low prices

Jan. 26, 2015: DOR Commissioner Randy Hoffbeck: SB 21 brings in “substantially more” revenue to the State at low prices than ACES (Senate Finance testimony)
Myth #9: Proponents of tax reform “promised” a million barrels per day through TAPS
FACT: One million barrels was a goal, and included oil from the Arctic offshore, ANWR, and State land.
Myth #10: Alaska can just transition to an LNG economy and get out of the oil business
FACT: Any successful gas project will require a healthy oil business to be economically viable.
Myth #11: Alaska is not receiving its “fair share” of oil revenues
FACT: Alaska still receives a fair share of oil revenues at low prices
Some Bright Spots in Otherwise Dim Light

- Point Thomson is operating, plans to triple production
- ConocoPhillips’ CD-5 now in production in NPR-A
- Hilcorp in permitting phase for Liberty opportunity
- BlueCrest first commercial sale of oil from Cosmo
- Caelus’ Smith Bay is a potential gamechanger
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